Center for Continuing Study of the California Economy

# Land Use
## and the California Economy

**Principles for prosperity and quality of life**

Commissioned By:
Californians and the Land

Sponsored By:
The William and Flora Hewlett Foundation
The James Irvine Foundation
The David and Lucile Packard Foundation
Environment Now
Bank of America

## Sustainability, Quality of Life, and the Economy

A purely environmental definition of sustainability focuses on leaving to future generations an undiminished availability of resources – like energy, water, food and undiminished environmental quality, such as air quality, global climate, and open space. In the concept of sustainability economic and population growth are often seen in conflict with the environment because growth uses up resources and places pressure on the environment.

Recently a new and broader concept of sustainability has emerged in California and throughout the nation. This new concept of sustainability includes economic, equity and environmental factors.

> "We believe a sustainable United States will have an economy that equitably provides for satisfying livelihoods and a safe, healthy, high quality life for current and future generations."
>
> *President's Council on Sustainable Development*

With this broader concept of sustainability the challenge becomes not just protecting the environment from the economy but working simultaneously to foster environmental and economic sustainability.

> "In the past we have tended to view environmental, economic and social goals as competing with one another. The principle of sustainability looks at these goals as interdependent. Sustainable regions recognize that the future of the economy and our quality of life are integrally linked."
>
> *Vision leadership Team.*
> *Joint Venture: Silicon Valley Network*

For additional copies please contact
Californians and the Land
201 Mission Street, 4th Floor
San Francisco, CA 94105
(415) 777-0487
or visit www.calfutures.org

## Center for Continuing Study of the California Economy

The Center for Continuing Study of the California Economy (CCSCE) was founded as an independent, private economic research organization specializing in the analysis and the study of California. CCSCE focuses on long term economic and demographic trends in the state and its major economic regions.

CCSCE works with private companies and public institutions that require an explanation and analysis of the growth process as well as detailed quantitative projections. CCSCE uses its findings to help decision makers in both the private and public sectors make long term strategic plans regarding business decisions and public policy.

CCSCE was established in 1969 by Robert K. Arnold and Stephen Levy. It has been a source of reliable information on California for investors, businesses, and public agencies for over a quarter of a century.

## Californians and the Land

Californians and the Land was initiated in late 1994 by The William and Flora Hewlett Foundation, The James Irvine Foundation, and The David and Lucile Packard Foundation, to provide a forum for a wide variety of public and private organizations and individuals interested in land conservation and sustainable use of land for dialogue on critical issues. As the California economy improves and development pressures increase, the sponsors and participants in Californians and the Land have recognized a growing need to encourage collaborative policy development and initiation of projects targeted to meet specific needs and goals identified as important to maintaining California's quality of life.

This report was written by Stephen Levy who is Director and Senior Economist of the Center for Continuing Study of the California Economy. He is the principal author of CCSCE's annual California economic reports and regularly briefs private and public sector managers on the implications of economic and demographic trends in California. Mr. Levy is also involved in bipartisan efforts to integrate economic analysis and public policy – serving as advisor to the California Economic Strategy Panel and as Vice Chairman of the Council of Economic Advisors to the California Institute for Public Policy Research in Washington, D.C.

This report was funded by The James Irvine Foundation and Bank of America

Design by Martha Murray Design, San Francisco

## Land Use Principles for a Growing Economy

### Principle One:  Regional Perspectives are Required

Regions are the critical geographic area for organizing land use decisions in California.  Planning for adequate land for jobs, housing, **and** open space requires a regional perspective.  Currently, local land use decisions often hinder economic growth.  Business costs will be higher and the quality of life will be lower if local land use decisions are made without assessing the regional impacts on housing, transportation, and the economy.

### Principle Two:  Land Must Be Used More Efficiently

Higher densities in California's urban regions are necessary to house the projected job and population growth.  The challenge is to make California's existing cities attractive places to live and work for many of the 12+ million new residents expected by 2020.  Failure will bring lost jobs and income, **and** will increase the pressure for unplanned growth away from existing cities.

### Principle Three:  Public Investment is Required

California faces more than $100 billion in infrastructure investments in the next ten years.  The need for substantial increases in public investment – in schools, transportation, airports, and water – has been documented again and again in analyses of California's economic competitiveness.  These same investments are also needed to support smart land use planning and maintain a high quality of life for all Californians.

### Principle Four:  Fiscal Reform is Essential

Current fiscal rules give the wrong land use planning incentives.  Current fiscal rules make infrastructure funding difficult.  Current fiscal rules prevent local governments from providing high quality public services for California's growing number of businesses and residents.

### Principle Five:  Equity Considerations Must Be Included

Smart land use planning must include job and housing opportunities for all Californians, as well as open space and preservation of the state's unique land resources.  Californians share the same land, the same economy, and the same environment.  The challenge is to ensure that increases in economic prosperity and quality of life reach all residents.

# Introduction

For many years California's rapid growth has created tensions between the goals of economic prosperity and quality of life. These tensions have often focused on land use decisions – from battles over individual development proposals to statewide initiatives for protecting the coast and preserving open space for all present and future residents. Many groups have searched for comprehensive solutions that combine economic and environmental goals and values, but so far Californians have not found agreement on how to plan for the future.

This report was commissioned from the Center for Continuing Study of the California Economy (CCSCE) by "Californians and the Land," a group of leaders from California's business, government, and environmental sectors. Californians and the Land, convened by the William and Flora Hewlett, James Irvine, and David and Lucile Packard foundations, Environment Now, and the Bank of America, works to foster public discussion and to develop public and private sector actions that will improve the alignment of Californians' common desire for continued economic growth and for protection and improvement of our quality of life.

CCSCE was asked to address three major issues

1. How much growth should California expect and why?
2. How are land use and quality of life issues related to the California economy?
3. What are the principles that must be addressed if Californians are to combine economic growth and a high quality of life – now and for future generations?

## Why Now?

Californians and the Land believes that the time is ripe for an examination of the connection between land use choices and the California economy for three major reasons:

- California's current economic boom and its return to earlier levels of population growth are raising critical land use issues in communities across the state;
- There are new dialogues among previously antagonistic interests, primarily business, agriculture, and environmental, that hold the promise of finding new "common ground," rather than returning to the conflicts of the past. This common ground is based in an understanding that Californians don't want to choose between economic growth and quality of life, but to find ways to achieve both; and
- With state elections producing new political leadership, including a new Governor, there will be new opportunities for policy choices based on common ground.

# Executive Summary

Californians must be prepared for a resumption of high levels of job, population, and household growth. The strength of California's leading industries should push California growth rates above the national average for at least the next twenty years.

There is a compelling business case for improving land use decision making in California – to attract the entrepreneurs and workers who will lead California's knowledge-based industries. There is also a compelling community case for improving land use decision making in California – to maintain a high quality of life for ourselves and future generations.

**Californians should be prepared for 3 million more jobs, 6 million more residents, and 2 million more households in the next ten years.** This growth will give California a slowly increasing share of the nation's jobs, people, and households – consistent with the state's strong economic growth prospects.

After ten years California's growth will slow, but only modestly. By 2020, based on conservative CCSCE projections, California will add approximately 5.1 million jobs, 12.4 million people, and should need 4.3 million more housing units.

A strong economy is raising incomes for most Californians and providing an increase in living standards for the first time in the 1990s. A continuing strong economy provides opportunities to include more and more residents in the state's prosperity.

This growing prosperity attracts even more new residents to California and increases pressures on land, the environment, and quality of life. More jobs attract more people and most new residents want to live in California's existing urban regions. Taking bold actions to preserve California's quality of life and environment in the face of a strong economy will make California even more attractive to workers and entrepreneurs. **This is the paradox of a strong economy.** Yet it is the only realistic chance for Californians to have both economic prosperity and a great place to live.

Residents have many choices about where growth will occur and what the impacts will be. **This report is about those choices.** The place to begin is by recognizing the importance of a high quality of life to business and to general economic prosperity.

A high quality of life is, increasingly, a critical determinant in attracting entrepreneurs and workers in global industries. Firms and employees in these industries have choices about where to locate. They can and do demand good schools, clean air and water, efficient transportation, excellent public services, and great recreational and cultural amenities – in short, a high quality of life.

Land use decisions play a critical role in determining the quality of life in California and, therefore, in how many high wage, high growth firms can locate and actually choose to locate in California's regions. These locational choices have a direct impact on the opportunities available to California workers to earn a rising standard of living for their families. Failure to protect the natural attractiveness of California can, therefore, hurt the state's future prosperity.

CCSCE has identified five principles for improving California's land use decision making – principles for simultaneously achieving economic growth, environmental and quality of life goals.

## Principle One: Regional Perspectives are Required

Regions are the critical geographic area for organizing land use decisions in California. The blunt fact is that residents and business leaders cannot assess the impact of local land use decisions without a regional perspective.

Planning for adequate land for housing, jobs, preservation of unique land resources, **and** open space requires a regional perspective. However, Californians remain in conflict about bringing a regional focus to land use decision making. Local communities control most land use decisions in California today. Local funding mechanisms make it impossible for local communities to assess and act on regional impacts, even if local residents are willing.

CCSCE suggests that a first step is to take existing regional growth projections, along with data on land use, zoning, and environmental needs, and see whether and how the growth can be accommodated. Can the projected jobs and households be located while conserving unique land resources and providing open space? What are the choices that emerge when you see "how to fit the growth on the land?"

## Principle Two: Land Must Be Used More Efficiently

There are four reasons why higher densities must be a key element of the solution to California's growth: 1) higher densities are the only way to accommodate expected growth in California's major urban regions; 2) there is a direct trade-off between higher density, the options for open space, and the pressures for unplanned growth patterns; 3) if California's existing urban regions cannot accommodate the anticipated growth, then the pressure for growth to spillout into California's agricultural, coastal, and mountain regions will intensify; and 4) enormous investments have been made in existing cities which are available to serve future growth.

It will not be possible to accommodate expected growth in most California regions unless large cities like Los Angeles, San Diego, San Jose, San Francisco, Oakland, and Fresno are part of the solution. Cities have the largest potential for increasing densities, for re-using abandoned and underutilized land, and for integrating job, housing, and shopping sites to reduce travel demands.

The requirements for making the major cities in California vital and attractive places to live and work are broad and challenging. They include: affordable and attractive housing, good schools, a tax base and fiscal rules that support high quality public services, jobs and programs that provide opportunities and raise incomes for low skilled workers, and safe neighborhoods for all residents **and** businesses. In addition these cities need to remain centers for culture, entertainment, and shopping – places where Californians want to work, live, and visit.

## Principle Three: Public Investment is Required

Public facilities are over-crowded throughout most of California. Roads are over-capacity at peak hours. Schools were short of classroom space even before class size reductions created more demand. Airports and ports are operating near peak capacity.

This is **before** the coming surge of growth.

A conservative estimate of ten year infrastructure requirements totals well over $100 billion. Even though these infrastructure projects could help attract high wage growth industries and, simultaneously, improve the quality of life for Californians, serious obstacles have left a large funding gap.

Economic prosperity and quality of life goals will also require long-term funding for open space, air quality, habitat protection, and preserving California's unique land resources – in short, funding to maintain and improve California's environmental infrastructure.

## Principle Four: Fiscal Reform is Essential

Meeting economic prosperity goals requires fiscal reform. Funding infrastructure for economic **and** quality of life goals requires fiscal reform. Creating land use planning incentives for sustainable regions requires fiscal reform.

Current fiscal rules give the wrong land use planning incentives. Cities compete against each other for retail activity while housing, and even manufacturing projects don't pay fiscally. High development fees are imposed because other revenue sources are inadequate, but the fees raise the price of housing and encourage sprawl.

Current fiscal rules make infrastructure funding difficult. There is no requirement for a long term infrastructure strategy even though ten year funding requirements exceed $100 billion. In addition, the two-thirds vote requirement for the state budget and local bond issues means that California's future infrastructure is controlled by just one-third of the Legislature and the voting public.

Fiscal reform must include mechanisms that allow local government revenues to keep pace with economic growth. The sales and property tax base that local communities depend on is not growing as fast as the California economy. Fiscal reform must simultaneously improve land use planning incentives **and** provide a revenue base that keeps pace with the demands of job and population growth.

## Principle Five: Equity Considerations Must Be Included

Complicated, and usually unintended, equity impacts can result from land use planning and decisions. For example, policies that restrict housing have relatively more impact on young and newly arriving households. Policies that limit job growth can block opportunities for upward mobility. On the other hand, policies that make California's cities more vital and attractive will also especially help California's poorer and minority residents.

Equity considerations must be part of the public discussion about developing strategies to deal with future growth in California. A discussion about equity is especially important in California where ethnic minorities will soon be a majority of the state's population and where immigrants come everyday seeking the American dream.

## Breaking the Logjam – Finding Comprehensive Solutions

Californians have many good ideas for encouraging economic growth, and many good ideas for strengthening our quality of life. Separate groups are working for more housing, greenbelts and agricultural preservation, environmental justice, fiscal reform, streamlining regulatory processes, and revitalizing urban neighborhoods.

None of these ideas **alone** is a solution to combining economic growth and a high quality of life. Greenbelts are not the solution. More housing is not the solution. Fiscal reform, regulatory reform, and attractive cities are not the solutions. These ideas are **parts** of the solution.

Real agreement, real compromise, and real solutions will only come when residents and business, agriculture, community and environmental groups, and local and state political leaders reach beyond their individual narrow agendas to embrace part of someone else's agenda. Solutions must combine housing **and** open space – both in adequate amounts to meet projected growth. Solutions must combine fiscal **and** regulatory reform **and** accountability.

California's economy has been through wrenching changes so far in the 1990s. Industries have had to develop new products and markets in a fast-paced global economy. Workers have had to adjust to new skill requirements and new ways of working. Yet, Californians are adapting to the new economy. Californians will enter the 21st century with a stronger economic base, higher incomes, and more opportunities than were present ten years earlier.

The question today is whether Californians can show the same resilience and innovation in meeting the unprecedented challenges of land use planning to sustain our economy, environment, and quality of life as we did in responding to defense downsizing and the global economy.

# California Faces a New Surge of Economic Growth

Californians must be prepared for a resumption of high levels of job, population, and household growth. The strength of California's leading industries should push California growth rates above the national average for at least the next twenty years.

Since the beginning of 1996 more than 1 million jobs have been added to California's economy. The state has solidly outpaced the nation in job growth during one of the nation's strongest periods of economic growth. The immediate results are that population growth is rising again, housing prices are surging in the hot job market areas, and traffic congestion has returned with a vengeance in most regions.

**The California economy has substantial future opportunities**. New products and technologies in multimedia, advanced telecommunications, and the use of the Internet symbolize the state's leadership in future growth industries. California is already the nation's leader for established growth sectors such as high tech manufacturing, motion pictures, foreign trade, and creative design in diverse industries like apparel, toys, autos, and chips.

The California economy meets the two principal criteria for high job growth rates.

- The state's economic base is positioned in industries with strong growth prospects in national and world markets.
- In each growth sector, California firms have a high and often rising share of national jobs and production.

The following examples illustrate the strength and diversity of California's economic base.

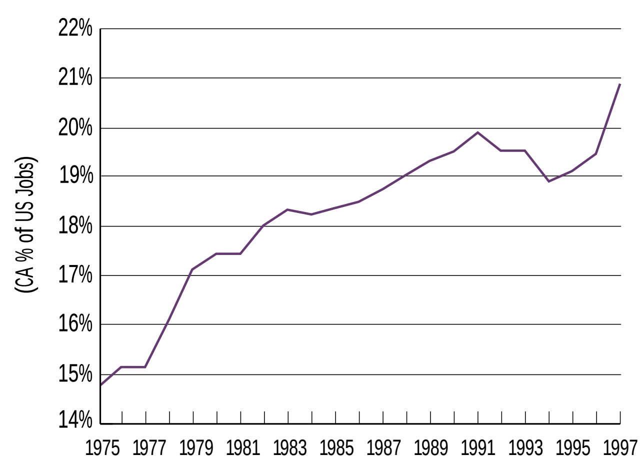
## High Technology

High tech manufacturing output is expected to grow by 9.4% annually in the next decade – more than four times faster than the total economy. California is the leader in existing sectors like chip design and scientific instruments as well as in the fastest growing new sector – advanced telecommunications equipment.

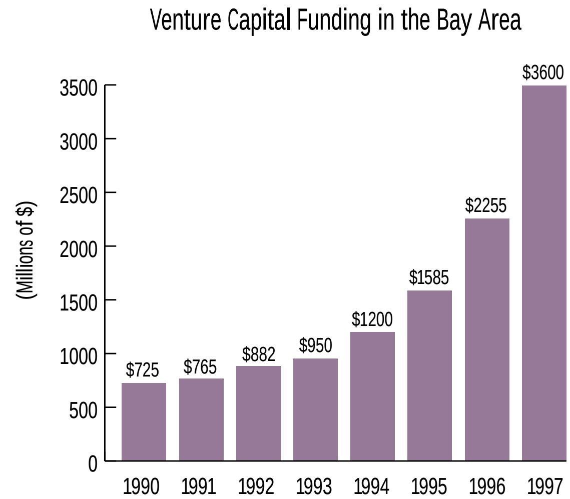
California's share of high tech manufacturing rose steadily during the 1980s to reach 20% of the nation's high tech jobs in 1990 before the recession hit. California's share dipped briefly in the early 1990s but recovered to reach **a new high of 21% in 1997** – nearly double the state's 11% share of total jobs.

Moreover, California has a deep pool of newly formed firms poised to

Long Term Growth in High Technology Share



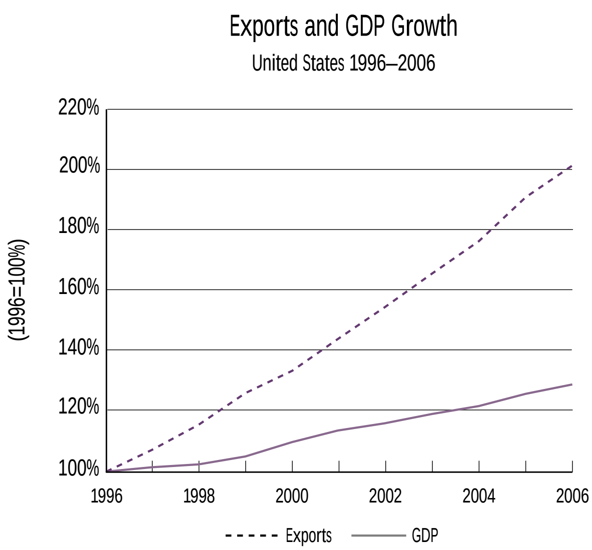
be tomorrow's industry leaders. The venture capital community has expressed great confidence in California's economic future as evidenced by eight straight years of rising venture capital investments in Silicon Valley.

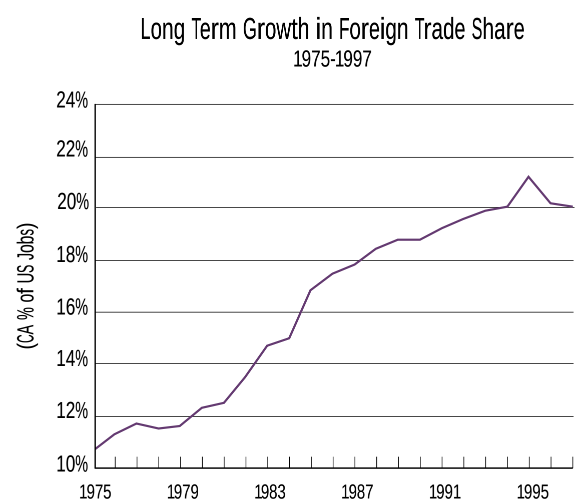



## Foreign Trade

Foreign trade has been a major engine of California's economic recovery. Exports of goods manufactured in California reached $109.6 billion in 1997 with high tech accounting for $68.0 billion. In 1996, Santa Clara County passed Detroit to become the nation's leading metropolitan export location.

Total trade through California ports and airports reached $315 billion in 1997. Since 1975 the volume of foreign trade has grown by 12.9% annually, while Pacific Rim countries




simultaneously have grown as export and import markets for the United States. Foreign trade will double in the decade ahead and grow three times faster than the overall U.S. economy. Despite a temporary slowdown from the Asian economic turmoil, California's share of U.S. trade remains in a long term upturn.

World financial markets are in turmoil as the report goes to press. Asian and Russian economies are shrinking and probably there will be a short term slowing of growth in the California economy. While it is possible that an international economic collapse could occur, the CCSCE projections assume that the long term growth of foreign trade will be resumed within a year or two.

| Average Wage in Selected Basic Industries – California 1997 | |
|---|---|
| Computers | $71,900 |
| Computer Services | 64,400 |
| Motion Picture Production | 58,200 |
| Instruments | 56,200 |
| Electronic Components | 52,500 |
| Engr. or Mgmt. Services | 48,700 |
| All Jobs | $33,000 |

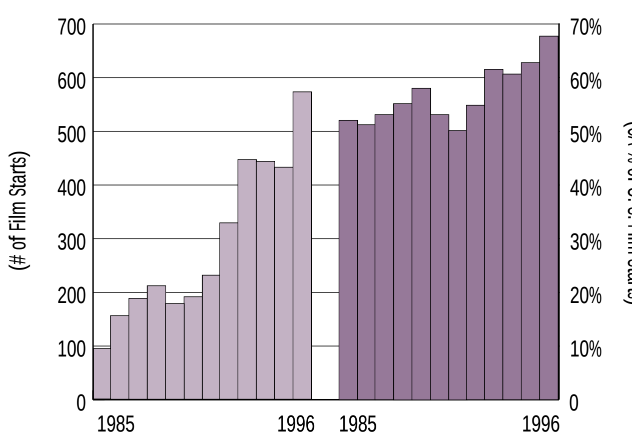
Source: California Employment Development Dept.; CCSCE

## Software and Motion Pictures

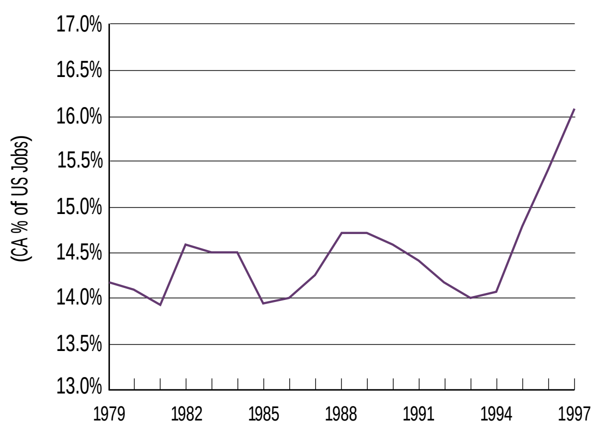
California's creative leadership is nowhere more evident than in high wage services like software and motion picture production. From 1994 through 1997, software services added 80,000 jobs (+59%) and motion picture production increased by 40,000 jobs (+24%). These sectors illustrate the fact that all high wage jobs are not in manufacturing.

Despite well publicized fears in the early 1990s that motion picture jobs were fleeing Southern California and that Utah was making a dent in California's software lead, the facts tell a different story. California's share of the nation's software jobs hit an all time high in 1995 and again in 1996 and 1997, even as the national industry surged ahead. California's share of film starts has risen from 50% to over 60% in the 1990s.

California Film Industry




Computer Services




## Other Sectors of the California Economy

The picture of California's economy described above could be extended to apparel, toys, agriculture, biotech, and semiconductor equipment manufacturing – all industries where California's share of national jobs and production is high, or rising, or both.

California's economic base is also poised for growth in the non high tech manufacturing sectors. California reached a record share of U.S. production in 1997 and should capture a rising share in the decade ahead.

## Quantitative Implications of California's Strong Economy

How much growth will result from California's strong economic base?

**Californians should be prepared for 3 million more jobs, 6 million more residents, and 2 million more households in the next ten years.**[1] This growth will give California a slowly increasing share of the nation's jobs, people, and households – consistent with the state's strong leading economic sectors.

Job growth should average at least 300,000 per year, above the national growth rate, but well below the 400,000 job growth pace of 1996, 1997 and 1998. For every new job California's regions will add approximately two new residents. For every three new residents, the regions will need to add approximately one housing unit. Thus, three million new jobs will bring six million new residents who will want two million new housing units

After ten years California's growth will slow, but only modestly. By 2020, based on conservative CCSCE projections, California will add approximately 5.1 million jobs, 12.4 million people, and should need 4.3 million more housing units.

California Growth 1997-2020 (Millions)

| | 1997 | 2007 | 2020 |
|---|---|---|---|
| Total Jobs | 15.1 | 18.3 | 20.2 |
| Total Population | 32.9 | 38.8 | 45.3 |
| Total Households | 11.1 | 13.1 | 15.4 |

1. CCSCE's projections are consistent with the long term economic forecasts of the U.C.L.A Business Forecasting Project and the California Employment Development Department. The population growth outlook is consistent with statewide projections of the California Department of Finance.

# The Paradox of a Strong Economy

A strong economy is raising incomes for most Californians and providing an increase in living standards for the first time in the 1990s. A continuing strong economy provides opportunities to include more and more residents in the state's prosperity.

A strong economy also brings new residents to California and increases pressures on land, the environment, and quality of life. More jobs attract more people and most new residents want to live in California's existing urban regions. Taking bold actions to preserve California's quality of life in the face of a strong economy will make California even more attractive to knowledge based workers and entrepreneurs. **This is the paradox of a strong economy**. Yet it is the only realistic chance for Californians to have both economic prosperity and a great place to live.

In 1997 population growth surged to near 600,000 in California as three years of solid job gains brought new residents to California from other states for the first time in six years. As indicated above, the current growth surge is expected to continue. In fact, the only times California's population growth has slowed relative to the nation in the past fifty years were during the state's two largest recessions – a high price to pay for slowing California's rate of population growth.

Housing prices are surging in California's fastest growing job markets. Record resale housing prices were reached in May, June, and July in the Silicon Valley, Orange County, Bay Area, and San Diego housing markets. Prices in these markets have risen between 20% and 50% during the past three years.

Other markets such as Los Angeles, Sacramento, and the Central Valley have begun to see price rises as economic growth has accelerated. Record high housing prices will spread to more California markets as strong job growth continues.

**Median Resale Housing Prices**

| | July 1998 | All Time High | | % Increase Since July 1995 |
|---|---|---|---|---|
| California | $211,783 | $211,783 | | 17.5% |
| Santa Clara County | 380,780 | 380,780 | (June 98) | 48.5% |
| S.F. Bay Area | 332,140 | 338,300 | | 25.3% |
| Orange County | 272,900 | 272,900 | | 27.6% |
| San Diego County | 215,600 | 215,600 | | 22.9% |
| Los Angeles County | 204,570 | 229,260 | (May 91) | 14.9% |
| Sacramento | 127,000 | 140,000 | (July 91) | 3.7% |
| Central Valley | 117,020 | 126,150 | (Nov. 92) | 5.9% |

Source: California Association of Realtors

One reason for the housing price surge is that California's urban regions are now falling behind job growth levels in creating new housing. In 1990 there were 1.4 jobs for every occupied housing unit in California. Both housing and job growth slowed from 1990 through 1997 but recent trends point to a serious challenge ahead. **In 1996 and 1997 California added 870,600 jobs and only 160,100 net occupied housing units – a ratio of 5.4 new jobs for each new household**.

California's job growth surge is filling our roads and airports. Although it is difficult to quantify, there is little doubt that rapid job gains have had an immediate and substantial impact on congestion whether for getting to work, shopping, or taking a trip to the beach or mountains.

The respite from environmental pressures on California's water and air caused by the recession and El Niño is ending. Continued job and population growth and a return to normal weather will begin a new cycle of steadily increasing pressure on the environment throughout most of the state.

### What are the Choices?

There are three possible approaches to address this paradox:

- Try to lower the rate of job and population growth;
- Accept or even induce a decline in the quality of life; or
- Find approaches that foster economic growth **and** maintain California's quality of life.

## Can California's Growth Be Limited?

The economic factors driving growth in California are very strong as described above. While using public policies to limit job growth may seem attractive to some Californians, there are negative impacts from doing so and the chances of success are small.

One way growth could be lower is if California's leading industries did less well than projected. Although this is certainly possible, it is not likely that much consensus exists for using public policy to lower these growth rates. After all, the same lead industries which are driving California's job growth are the high wage industries that communities are seeking.

Could California concentrate on high wage growth sectors and limit other kinds of job growth? This strategy is simply not possible – the economy doesn't work that way. Most relatively low wage jobs serve residents in activities like restaurants, retail stores, hospitals, day care centers, and gardening. Growth in these jobs is a direct result of growth in California's economic base.

Economies like Silicon Valley, which are at the center of California's high wage job growth, actually have the income to support more low wage service jobs than poorer areas. While it is everyone's goal to raise incomes and reduce inequality, this can only be done by long term policies to raise skills and to attract high wage industries – not by any policy of trying to limit low wage jobs.

What about using land use decisions to limit growth? Actually this strategy has been tried by many local communities in California. The results have been to shift growth to other communities – not limit overall growth. While these policies may provide local benefits, they do nothing to address the regional pressures of a strong economy.

> "Statewide, locally administered growth controls have had little impact on population growth rates."
>
> Do Growth Controls Work:
> An Evaluation of Local Growth Control
> Programs in Seven California Cities
> *John D. Landis*

> "Despite the welter of regulation, growth has been robust in all study areas."
>
> Growth Controls
> *The California Policy Seminar*
> *Kee Warner and Harvey Molotch*

> "…taking into account changes in population growth and changes in the prime interest rate, the number of growth control measures enacted annually cannot be shown to have more than a random effect on construction activity."
>
> Regional Growth… Local Reaction:
> The Enactment and Effects of Local Growth Control
> and Management Measures in California
> *Madelyn Glickfeld and Ned Levine*

If growth is limited artificially, we will not have the economic base to sustain the quality of life enjoyed by California citizens. This ultimately will effect the environment and social integrity of the state leading to further deterioration of the economy. The interdependence of economic well being and environmental and social factors needs to be recognized and balanced to sustain our quality of life.

### Letting the Quality of Life Deteriorate

No one advocates this course and may not consciously choose to let the quality of life deteriorate. The reason why this choice is unappealing is that while failure to maintain a high quality of life may decrease growth pressures, this strategy exacts high costs on existing residents. Moreover, a deteriorating quality of life will slow the growth of precisely the kinds of industries communities are trying to attract. By avoiding the changes needed to continue economic growth while maintaining environmental and social integrity, we will not notice or respond to the erosion of the quality of life until it is too late. In the end, it is a lose-lose approach.

### Approaches that Combine Economic Growth and a High Quality of Life

While Californians have few realistic options to limit growth, residents have many choices about where growth will occur and what the impacts will be. The rest of this report is about those choices. The place to begin is by recognizing the importance of a high quality of life to business.

## Most Businesses Demand A High Quality of Life

There are four major links between public policy and economic growth in California. All major studies of competitiveness for California industries produce the same four critical **public** determinants of increased **private** investment.

- Workforce Preparation – Education and Training
- Infrastructure Investment
- Business Regulation
- Quality of Life

A high quality of life is not just an amenity for California residents. It is, increasingly, a key determinant in attracting workers in California's leading industries.

> "Silicon Valley remains a center of innovation and entrepreneurship because of its people. If we lose the talent that distinguishes us – whether to congestion, poor schools, inadequate housing, or environmental degradation – we lose the **essential** element of our success."
>
> *Becky Morgan, President & CEO*
> *Joint Venture: Silicon Valley Network*

California firms are trying to attract managers and workers in world leading industries – usually knowledge intensive industries with a heavy focus on technological leadership. At the same time other regions and countries are trying to build strong industry clusters in these sectors.

Firms and employees have choices about where to locate. California has a strong competitive head start in industries like multimedia, motion pictures, internet tools, biotech, and chip design. But California is not the only location for future growth in these industries. **A nice place to live is a key determinant in these location choices**.

> "Livability or quality of life is the glue that holds this region's story together. In order to maintain and expand the San Diego region's economic vitality, we need to continue to retain the best and brightest people to live and work here. Companies make location decisions too, and research shows that CEO's are significantly influenced by the quality of life they can expect for themselves, their families, and their employees in a new location."
>
> *Ben Haddad, President*
> *San Diego Chamber of Commerce*

A high quality of life means many things. The transportation system must be able to move people and goods with minimum delay and congestion. The air and water must be clean. Public facilities and cultural amenities must be top notch. Recreational opportunities must be varied and accessible. **Finally, the region must offer a variety of housing choices**. Moreover, the region's high quality of life must be sustainable. Land use decisions play a major role in all these dimensions of a high quality of life.

Economic growth agendas and quality of life agendas share many common elements.

Vital and livable cities are necessary to attract businesses **and** are critical if California's population growth can be housed without massive sprawl.

Good schools provide a trained workforce **and** are often the key determinant of where families choose to live.

- Efficient transportation moves both people and goods alike.
- Affordable housing helps residents and businesses.
- Clean air and water are required to attract workers and residents and also lower the long term costs of pollution.
- There is growing community support for trying to pursue economic growth and quality of life goals simultaneously.

> "The time to fight all growth is past. California will grow. Our job is to develop policies for smart growth – smart enough to preserve critical resources and valuable open space, smart enough to make our cities attractive places to live, and smart enough to provide housing and a high quality of life for all Californians."
>
> *Dan Silver, Executive Director*
> *Endangered Habitat League, San Diego*

# Moving Ahead —
# Principles for Combining Economic Growth and a High Quality of Life

Californians have been struggling with land use, growth, and quality of life issues since statehood was achieved 150 years ago. No consensus on how to proceed has yet developed. Now sustainability is being broadened to include economic and equity as well as environmental and resource considerations. Meeting these challenges poses difficult choices.

Californians and the Land did not ask CCSCE to suggest specific solutions. That is a task well beyond the scope of this paper. Rather, CCSCE was asked to identify principles for developing solutions – principles consistent with the California economy and how it operates.

## Principle One: Regional Perspectives are Required

Pursuing both economic growth and quality of life objectives demands a regional approach in California.

The California economy is an aggregation of regional economies. Raising living standards in each region requires focusing on that region's unique set of industry, workforce, and quality of life issues.

Many industries have strong regional connections, like motion pictures in Southern California, agriculture throughout the Central Valley, and high tech research and development in Silicon Valley. These industries depend on regional workforces, regional suppliers, and regional supporting institutions like community colleges. Many infrastructure decisions are regional including transportation, airports, and water, and waste disposal systems.

Regional actions are so critical to economic prosperity that public-private partnerships are forming throughout California to address regional public policy linkages to economic growth. These groups are wrestling with a range of issues critical to regional economies – including good schools, fiscal reform, infrastructure planning, and streamlining regulation, as well as providing industry leaders with a forum to discuss specific industry issues.

For example, Joint Venture: Silicon Valley Network, the oldest regional collaborative, has initiated a $20 million privately funded challenge grant program for local schools, developed uniform building code provisions among all local jurisdictions, and provided a white paper on local government fiscal reform. Several other regional partnerships have formed since Joint Venture to explore regional economic linkages.

Regions are also the critical geographic area for organizing land use decisions. The blunt fact is that residents and business leaders cannot assess the impact of local land use decisions without a regional perspective.

Planning to ensure that regions have adequate land for housing, jobs, **and** open space requires a regional perspective. However, Californians remain in conflict about bringing a regional focus to land use decision making. Local funding mechanisms make it impossible for local communities to assess and act on regional impacts, even if local residents are willing.

Regional public-private partnerships can play a role in land use issues. They can help identify the linkages between land use decisions and economic growth. Moreover, as regional groups find common state policy issues, such as local government fiscal reform, they can provide additional voices for state reforms to provide better local incentives for smart land use decision making.

### A First Step Towards a Regional Focus

Projections of expected job, population, and household growth are available for the major regions of California – CCSCE's population projections are shown on page 22, and most regions have growth projections prepared by their regional planning agency. Thus, residents and business leaders have a good starting point for planning related to future growth.

CCSCE suggests that a first step is to take the existing growth projections, along with data on land use and zoning, and see whether and how the growth can be accommodated. Can the projected jobs and households be located while conserving unique land resources and providing open space? What are the choices that emerge when you see how to fit the growth on the land?

Today there is a major disconnect between regional and local perspectives, because most land use decisions are made by local communities in California, and the regional perspective is often absent. A development proposal is brought to a local jurisdiction and the community can accept, reject, or modify the proposal. The one act that a local community usually cannot take is to say “not here, but there.”

The reason is simple. In most cases alternative development sites are in other jurisdictions and owned by different landowners. Without a regional perspective there is simply no way to know, for example, whether limitations on housing in one part of Silicon Valley, Orange County, or San Diego will be offset by housing nearby, result in pressures for housing in more distant, rural settings, or cause high wage jobs to locate elsewhere.

In 1997 California had approximately 15 million jobs and 11 million households. Thus for every 150,000 new jobs locating in a region there will be approximately 110,000 new households. If these households cannot be located in reasonable proximity to the jobs, two results are possible:

1. The new households will locate farther away from job sites – most likely on cheaper semi-rural or rural sites – and there will be an increase in commuting, time away from the family, and congestion, a decrease in air quality, and a loss of agricultural land, and scenic open space. The most extreme examples of this pattern of development are the location of housing for Bay Area workers in the San Joaquin Valley and the recent pattern of commuting from Moreno Valley into downtown Los Angeles.
2. Some of the jobs will locate elsewhere – most likely those jobs where workers can demand a high quality of life where they live and work.

The right balance among jobs, housing, and open space can only be obtained if groups pay attention to the "heres" of development, i.e., places where development can go as well as the "not theres." Possible tradeoffs of high density housing for more open space, of more housing in cities for less sprawl elsewhere, can only be seen from a regional perspective. Through a collaborative process, the first steps will provide critical information to residents and business leaders. These steps are:

1. determining projected regional job and household growth;
2. identifing alternative approaches to siting jobs, housing, transportation, environmental needs, and related land uses; and
3. beginning a public discussion about the regional impacts of each alternative.

But these are only the first steps. Even with more information, there are severe obstacles to better land use decision making processes in California.

## Principle Two: Land Must Be Used More Efficiently

All major regions of California are expected to grow faster than the national average. During the next twenty years California will add 5.1 million jobs, 12.4 million people and 4.3 million households. Over 70% of the growth is anticipated in the three major urban regions around Los Angeles, San Francisco, and San Diego.

### Population Growth in California 1997-2020 (Thousands)

| | 1997 | 2020 | Growth | Share of Growth | % Growth 1997-2020 |
|---|---|---|---|---|---|
| Los Angeles Basin | 16,140.8 | 22,169.8 | 6,029.0 | 49.0% | 37.4% |
| San Francisco Bay Area | 6,631.1 | 8,298.0 | 1,666.9 | 13.5% | 25.1% |
| San Diego County | 2,763.4 | 3,918.7 | 1,155.3 | 9.4% | 41.8% |
| Sacramento Region | 1,664.7 | 2,419.7 | 755.0 | 6.1% | 45.4% |
| San Joaquin Valley | 3,172.2 | 4,959.4 | 1,787.2 | 14.5% | 56.3% |
| Rest of California | 2,584.8 | 3,498.7 | 913.9 | 7.4% | 35.4% |
| California | 32,957.0 | 45,264.3 | 12,307.3 | 100.0% | 37.3% |
| United States | 267,575.0 | 322,742.0 | 55,167.0 | | 20.6% |

Source: 1997 – California Dept. of Finance; 2020 – CCSCE; U.S. – Census Bureau

There are four reasons why higher densities must be part of the solution to California's growth.

1. Higher densities are the only way to accommodate expected growth in California's major urban regions.
2. There is a direct trade-off in urban regions among higher density, open space, and the pressures for sprawl.

> "Sprawl negatively affects the quality of life for employees. Silicon Valley has to grow up – not out"
>
> *Carl Guardino, President*
> *Silicon Valley Manufacturing Group*

3. If California's urban regions cannot accommodate the anticipated growth, then the pressure for growth to spillout into adjacent areas like the Central Valley and coastal region will intensify. Some growth will occur outside California's urban regions, but the amount of such growth will depend on the ability of, and incentives for, the urban regions to use existing land more efficiently.
4. Californians have a large infrastructure investment in existing urban areas. The maintenance and improvement of these investments, which are necessary to serve existing residents, also provide a low-cost approach to providing infrastructure for new residents.

> "Over the years, it has become apparent that growth patterns actually play a more important role in causing urban sprawl than population growth itself. Controlling or changing population growth trends is nearly impossible; but it may be possible to change patterns of growth especially if a grass roots consensus for better land use planning can be developed among local stakeholders and decision-makers."
>
> A Landscape of Choice
> *The Fresno Business Council,*
> *American Farmland Trust,*
> *Fresno County Farm Bureau,*
> *Fresno Chamber of Commerce, and*
> *Building Industry Association of the San Joaquin Valley*

## The Central Valley, Coastal, and Mountain Regions

In 1997 nearly 6 million of the state's 33 million residents lived outside of the Los Angeles, San Francisco, San Diego, and Sacramento regions. More than half (3.2 million) lived in the eight county San Joaquin Valley; 1.3 million lived in the five coastal counties from Santa Barbara to Santa Cruz; and 1.2 million lived in California's 25 other rural and mountain counties.

These 38 counties have somewhat different land use decision challenges form the major urban regions.

1. These 38 counties contain less than 20% of the state's population but almost all of California's agriculture, redwoods, national parks, world famous coastline, and rural communities.
2. These counties are not connected economically or in land use in the same way that Los Angeles and Orange counties or Santa Clara and Alameda counties are connected. There is much more limited inter-county commuting and inter-county economic relationships.

On the other hand, many agricultural and coastal counties are increasingly getting connected to the Bay Area as counties like San Joaquin, Santa Cruz, Stanislaus, and Merced are bedroom communities for Bay Area workers. These pressures will probably grow and extend to the Los Angeles Basin — envision a high speed train from Kern County into the job-rich San Fernando Valley — and the Sacramento region where growth pressures are emerging in Nevada, Sutter, and Yuba counties.

As with most California land use challenges, land use issues in the Central Valley, coastal and mountain counties are complex. First, these counties will, by 2020, absorb some of the state's 12.3 million new residents. Second, many of these counties have the state's highest unemployment rates and lowest per capita incomes. Actions to increase the rate of economic growth will have the effect of also raising population growth. Finally, these counties contain lands where there is a strong case for preservation.

One point is clear, though. Success in raising densities and absorbing growth in California's major urban areas will make the task of preserving unique agricultural, forest, and resource areas much easier.

## Californians Need to See Examples of Positive Higher Density Development

Higher density uses of California's land often meet with community resistance. Many residents associate higher densities (whether residential or commercial) with negative impacts like congestion and crime.

Since higher densities are required to accommodate even minimum expected levels of growth while preserving unique resources and open space, one challenge is to show Californians successful examples of higher density development. The most important challenge is to find examples of successful higher density **residential** development, because it is in new housing that the greatest conflicts between growth and sustainable land use will occur.

Now is the time for California's creative planners, architects, and developers to bring forth examples of vital and attractive higher density land uses and to show Californians in models, pictures, and words exactly what California's communities will look like if we plan to accommodate the expected growth in jobs, housing, and people.

"Developers and builders face an uphill battle when working on higher density development. To get more well designed and attractive high density residential units, we must overcome public policies and public attitudes which obstruct and discourage them. Time is valuable to developers and builders. The more hurdles they face, the higher the costs. A wide range of obstacles including prohibitive traffic standards and infrastructure exactions, abusive construction defect litigation, and over-reaching environmental quality standards can drive up costs and dramatically reduce economic feasibility. Neighborhood resistance is another huge persistent problem.

These factors force densities to be reduced or push development to areas where fewer constraints are encouraged."

*Monica Florian, Sr.Vice President*
*The Irvine Company, Newport Beach*

## Re-using California's Urban Land Can Provide New Opportunities

Californians are getting a second chance at development options through the redevelopment of major land parcels which had previously served defense purposes in our most crowded regions. Bases such as the Presidio, Treasure Island, Moffett Field, the Long Beach Naval facilities, El Toro Marine Station, Norton Air Force Base, Fort Ord, the San Diego Naval Training Center, and Mather Air Force Base are being returned to nonmilitary uses. Fort Ord, one of the first facilities to be re-used, now has a new California State University campus with plenty of land available for supporting activities.

One approach to increasing densities and making cities more attractive at the same time is urban land recycling. California's older cities have abandoned or deteriorated manufacturing plants, dry cleaning facilities, closed gas stations, and stores and homes which have seen better days. Some sites are in neighborhoods that need better policing and transportation. Some sites have toxic contamination from past uses.

There are numerous problems to be worked out—from funding toxic cleanup, to providing public services to neighborhoods, to land use and tax policies that promote redevelopment. The payoff, however, is substantial in terms of the potential to redirect growth to areas that want growth and have a basic foundation of existing infrastructure and public services.

> "Land recycling is a vital tool for making California a more livable place. Land recycling can form the centerpiece of a more sensible, and sustainable approach to land use and development.
>
> By using our land in a way that increases the average density in existing urban areas to an average of only three housing units per acre, all new residents could be housed without developing a single additional acre of open space."
>
> *George B. Brewster, Executive Director*
> *California Center for Land Recycling, San Francisco*

## Making Cities Attractive Places to Live

It will not be possible to accommodate expected growth in most California regions unless large cities like Los Angeles, San Diego, San Jose, San Francisco, Oakland, and Fresno are part of the solution. Cities have the largest potential for increasing densities, for re-using abandoned and underutilized land, and for integrating job, housing, and shopping sites to reduce travel demands.

California's ten largest cities are currently home to 8.9 million of California's 33 million residents. These cities must be attractive for a significant share of the expected 12.3 million new residents by 2020 if Californians want greenbelts, open space within urban areas, and a limit to development in rural communities.

The requirements for making the major cities in California vital and attractive places to live and work are broad and challenging. They include affordable and attractive housing, good schools, a tax base and fiscal rules that support high quality public services, jobs and programs that provide opportunities and raise incomes for low skilled workers, and safe neighborhoods for residents **and** businesses. In addition, these cities need to remain centers for culture, entertainment, and shopping – places where Californians want to work, live, and visit.

The battle to make California's cities vital and attractive is a two-edged sword. Success will greatly support the process of combining economic and environmental sustainability objectives – accommodating growth while preserving open space and minimizing congestion. On the other hand, failure in the cities will probably doom the smart growth process. If California's cities do not attract residents and businesses, there is no way to accommodate new jobs and housing except through continued unplanned land uses.

> "Land use decisions determine whether we have a livable, tolerant community in Southern California. Economic development and environmental needs must be connected. Inner cities must be attractive, vital, and safe or residents will want to leave."
>
> *Denise Fairchild, President*
> *Community Development Technologies Center, Los Angeles*

## Principle Three: Public Investment is Required

Public facilities are overcrowded throughout most of California. Roads are over capacity at peak hours. Schools were short of classroom space even before class size reductions created more demand. Airports and ports are operating near peak capacity. This is **before** the coming surge of growth.

Californians interested in an expanding economy have long called for a world class infrastructure to attract high wage jobs.

> "A high quality infrastructure that provides an educated and skilled workforce, high quality public research institutions, and efficient transportation, ports and airports, for example, when combined with a high quality of life are what attract business to California in the first place."
>
> Collaborating to Compete in the New Economy
> *California Economic Strategy Panel*

Public investment is also important from a sustainable land use and quality of life perspective. Public investment builds schools, increases transportation capacity, helps cities provide residents with a high quality of life, and is part of meeting the challenge of open space and clean air.

California faces billions in infrastructure requirements to correct present shortages and provide for future growth. The state Department of Education estimates that $34 billion is needed for K-12 schools over just the next ten years – $15 billion for growth, $19 billion to modernize aging facilities. Additional class size reductions will add to the costs. State colleges say they will need $13 billion in the next decade. A 1997 state Department of Finance analysis estimated these additional ten year infrastructure costs.[2]

| 10 Year Infrastructure Costs | |
|---|---|
| Prisons | $ 9 billion |
| Transportation | $29 billion |
| Resources and Environment | $ 7 billion |
| Other | $ 2 billion |

These figures do not include regional infrastructure projects like the multi-billion dollar expansions of Los Angeles, San Francisco, and San Diego area airports, port expansions, and local public facilities.

The infrastructure plans cited above total well over $100 billion for the next ten years. Even though these infrastructure projects help attract high wage growth industries and, simultaneously, improve the quality of life for Californians, serious obstacles have left a large funding gap.

California needs an increase in environmental as well as physical infrastructure. Meeting economic prosperity and quality of life goals requires investments to maintain California's land and environment.

Infrastructure funding is necessary for both the "heres" and the "not theres" of California's future land use. Public funding is necessary to make some of the "heres" (places for development) attractive – e.g., infrastructure to make cities attractive for businesses and residents. Public funding and private donations are also a critical part of preserving the "not theres" by paying for land acquisition and management.

One obstacle is that money is not the only way to increase infrastructure capacity and Californians have been skeptical to write large checks until they are comfortable that other options have been considered **and** that there are mechanisms to assure accountability. Peak hour (congestion) pricing, sharing facilities among communities, and the use of technology in some teaching settings are all ways to increase capacity without more building. The bottom line is that one part of an infrastructure strategy for California must address issues of accountability and non-building approaches to capacity expansion.

[2] **Capital Outlay Infrastructure Report**, California Department of Finance, 1997

> "Long term economic prosperity of our communities must have a firm basis in both our physical infrastructure, like schools that educate us and homes that shelter us, and our natural resources, like clean air and water that sustain us. A vision for the twenty-first century must recognize that California's habitats and natural communities are an integral part of the economic foundation upon which future prosperity depends. We need increased investment in our land, air, and water and the life they support, to sustain a strong agricultural economy, growing tourism and recreational industries, healthy communities, and a quality of life that attracts the work force that underpins a vibrant economy."
>
> Habitat and Prosperity: Protecting California's Future
> *California Environmental Dialogue*
> *(A coalition of business, government, and environmental interests)*

Another obstacle is that Californians are not in agreement about who should pay for new infrastructure. Californians are particularly divided on the question of whether new residents should be entirely responsible to pay for new infrastructure – "growth should pay for itself." While this slogan is initially attractive to some people, there are two reasons to take a different view:

1. While some infrastructure directly serves new residents (e.g., new schools and roads in an undeveloped area), much of the new infrastructure either modernizes existing facilities or also serves existing residents and businesses.
2. There is broad agreement that California's last wave of infrastructure spending ended in the 1960s. Since then residents have not paid to keep pace with growth, and serious infrastructure shortages have developed.

For these reasons, placing the burden of funding infrastructure solely on new residents will lead to inadequate funding relative to the state's economy **and** create an equity imbalance between new and existing residents.

## Principle Four: Fiscal Reform is Essential

Meeting economic prosperity goals requires fiscal reform. Funding infrastructure for economic **and** quality of life goals requires fiscal reform. Creating land use planning incentives for sustainable regions requires fiscal reform.

While there is no agreement yet on solutions, there is growing agreement that is bringing economic, planning, and environmental interests together on three major problem areas.

### Current Fiscal Rules Give the Wrong Land Use Planning Incentives

Local governments have a fiscal incentive to add major sales tax generating activities and often have a fiscal disincentive to add housing and even manufacturing facilities. The economic reality is, however, that the number of big retail facilities is limited and the only choice is where they locate within a region – so the fiscal competition adds nothing regionally. On the other hand, fiscal disincentives for housing can reduce a region's housing production or make housing more expensive, as cities place high fees on new housing to make up for lagging revenues from other sources.

> "Today, however, land use planning no longer creates a healthy balance in California's communities. All too often, communities are forced to make land use planning decisions based entirely on budget decisions. The question of how to create healthy, balanced communities has become secondary to the immediate need to balance the budget."
>
> Restoring the Balance: Managing Fiscal Issues
> and Land – Use Planning Decisions in California
> *California Planning Roundtable*

High development fees are a feature of California's post - Proposition 13 local government finance system. These fees, designed to help revenue-starved communities finance infrastructure and public services, add substantially to the cost of new housing.

> "Our analysis shows that the fees imposed on new construction are significant, typically falling in the range of $20,000 to $30,000 per development. In one community, the fees and assessments totaled 19 percent of the mean sales price."
>
> Who Pays for Development Fees and Exactions
> *Marla Dresch and Steen M.Sheffrin*
> *Public Policy Institute of California*

These fees may encourage sprawl by leading residents further out into rural areas to find cheaper housing – even though all evidence suggests that residents want to live near their jobs if available housing is close to their price range.

Current fiscal incentives may even cause communities to think twice about approving manufacturing or research facilities because they don't provide much revenue.

> "There is no incentive at this point for local government to spend any time or money pursuing industrial development. The only real incentives are in the retail area…and that doesn't create a sustainable economic strategy for the region."
>
> *Lee Harrington, President*
> *Los Angeles Economic Development Corporation*

California's fiscal system directly impedes environmental protection. The results of poor fiscal incentives for housing endanger rural and agriculture lands. The results of inadequate local revenues from development restrict open space preservation. Sprawl spreads the impacts of poor air quality.

> "The environment is a big loser in the state's dysfunctional local government fiscal rules. Local communities are forced to focus land use planning on raising revenue. California needs fiscal incentives to reduce sprawl."
>
> *Mary Nichols, Executive Director*
> *Environment Now, Los Angeles*

## Current Fiscal Rules Make Infrastructure Funding Difficult

Current laws impede the ability of Californians to fund infrastructure investment in two major ways.

- State bond issues and the state budget fund part of California's infrastructure investment. At present there is no systematic capital investment planning in California. Moreover, the state budget still requires a two-thirds majority for adoption.
- Local governments fund another part of California's infrastructure investment. There is great concern that the two-thirds voting requirement for most local infrastructure funding prevents a majority of voting Californians from controlling decisions on planning for the future.

> "The tax structure should enhance the state's economic competitiveness, taking into consideration the level and quality of public services the tax system finances. Particular concern should be paid to the capability of the tax system to support investment in planned infrastructure critical to the state's economic competitiveness and to accommodating the state's rapid population growth. In particular, a simple majority of local voters should be able to approve general obligation bonds for infrastructure projects if the projects are included in a local capital improvement plan. The tax system should not include fiscal disincentives to sustainable development and should have minimal influence on local land use decisions."
>
> Concepts for State and Local Tax Structure Reforms
> *California Prosperity Through Reform Project and*
> *California Council for Environmental and Economic Balance*

## Current Fiscal Rules Do Not Support Economic Growth

California's state-local fiscal relationships are failing on both quality of life and economic growth criteria. In 1998 the fiscal policy interests of residents and business are closely aligned in the desire for fiscal reform.

- Residents want attractive communities with high quality public services. Businesses know that such communities are essential to attract cutting edge industries, entrepreneurs, and workers.
- Residents want public infrastructure investment to assure adequate capacity in schools, transportation, water, airports, and prisons. Even when capacity can be expanded through better use of existing facilities, California faces a large backlog

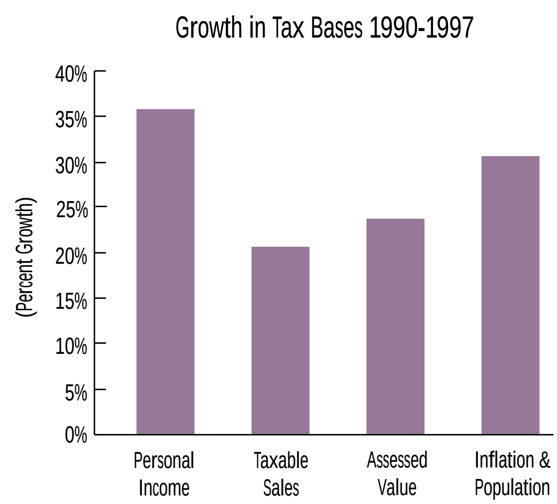
of infrastructure investments. Businesses know that world class infrastructure is essential to support California's technology and export sectors.

- Residents know that current fiscal rules make most housing development a drain on their public services. Businesses know that current fiscal rules make it difficult for regions to provide the amount and diversity of housing that companies need to attract workers and their families.

### The Sales and Property Tax Base Does Not Keep Pace With Economic Growth

California's local communities rely heavily on sales taxes and property taxes to finance local public services. The fiscal disincentives for smart land use caused by the current system were discussed above. It is also true that the sales and property tax base is not keeping pace with economic growth – i.e., local communities are funded by the state's slowest growing major tax bases.

Since 1990, total personal income in California has grown by 35.5% – slightly outpacing the rate of population growth and inflation (30.9%). Personal income tax revenues – the **state government's** major tax base – have grown even faster.




The sales tax base has grown by just 20.9% during the same seven years while assessed value has grown by 23.6%. Sales tax revenues are likely to continue falling behind income growth as consumers spend an even greater fraction of their income on non-taxable items and some internet transactions are not taxed.

While the property tax base has grown rapidly in some years and in some communities, the overall property tax base will always be limited by the 2% annual cap on assessed value increases on specific property. The sales tax and property tax bases that currently finance local governments in California are not keeping pace with economic growth. Even one time adjustments, such as giving local governments a higher share of the sales tax, do not solve the long term challenge of providing local governments with a revenue base that keeps pace with economic growth and provides positive incentives for smart land use decisions.

## Principle Five: Equity Considerations Must Be Included

Complicated, and usually unintended, equity impacts can result from land use planning and decisions. For example, policies that restrict housing have relatively more impact on young and newly arriving households. Policies that limit job growth can block opportunities for upward mobility.

Two points about land use and equity are clear:

- The economic impacts of land use decisions that limit job growth in a region will fall most heavily on poor residents.
- The social and quality of life impacts of land use decisions that limit housing growth in a region will fall most heavily on the young, the poor, and newly arriving households – all populations in which minority ethnic groups are over-represented.

The broad definition of sustainability used in this report means that equity considerations must be part of the public discussion about developing strategies to deal with future growth in California.

There are economic as well as moral arguments for making equity an important consideration in land use and economic planning. An increase in skill levels, jobs, and incomes not only benefits poor communities but adds to regional buying power and

> "Addressing urban poverty will require the political and moral commitment of significant numbers of people who are not poor. Some have sought to appeal for such support by raising fears that urban problems will "spill over" to outlying areas, an approach which predisposes suburbanites to view urban areas as places to be avoided and contained. Others have evoked the power of conscience and compassion, motives which are unfortunately less present when a broad range of people feel economically insecure.
>
> We suggest a third approach which emphasizes common ground: The fates of our region and its low-income communities are inextricably intertwined, which means that attempts to address poverty and neighborhood decline help all residents of the region. We are, after all, in the same boat – and if one end springs a leak, the whole vessel will eventually go down."
>
> Growing Together: Linking Regional and
> Community Development In A Changing Economy
> Summary Report – April 1997
> *Manuel Pastor, Jr.; Peter Dreier;*
> *J. Eugene Grigsby III; Marta López-Garza*

economic growth. Major California companies are well aware that their bottom line will be better if more Californians participate in the state's economic prosperity.

It is also wrong to portray poor and minority residents as choosing economic over environmental objectives. All Californians share the goals of simultaneously achieving economic growth and high quality of life. For example, the Latino Issues Forum has an active program underway called Latinos and Sustainable Development. Their definition of sustainability matches the emerging consensus for incorporating both economic, environmental, and equity goals.

> "**Sustainable development** ensures that all members of present and future generations can achieve economic security, social well-being, quality of life and preserve the ecological integrity on which all life depends."
>
> Latinos and a Sustainable California:
> Building a Foundation for the Future
> *Latino Issues Forum, San Francisco*

# Breaking the Logjam — Finding Comprehensive Solutions

Californians have many good ideas for encouraging economic growth and many good ideas for strengthening our quality of life.

Some Californians are working to create more housing – particularly for middle and lower income residents.

Some Californians are working to define urban growth boundaries, expand open space, and preserve the state's unique agricultural, coastal, and mountain lands.

Some Californians are working to draft new fiscal rules so that cities have incentives for housing and jobs, city revenues keep pace with economic growth, California has a long term infrastructure plan, and residents can fund public facilities with a majority, not two-thirds, vote requirement.

Some Californians are working to streamline planning and permitting procedures, find non-building solutions to expanding infrastructure capacity, and bring more accountability to government.

Some Californians are working to help poorer residents find opportunities in the state's changing economy and to make urban neighborhoods safe and attractive places to live.

None of these ideas **alone** is a solution to combining economic growth and a high quality of life. Greenbelts are not a solution. More housing is not a solution. Fiscal reform, regulatory reform, and attractive cities are not solutions. These ideas are **parts** of a solution, and herein, is the reason why progress has been so slow.

Real agreement, real compromise, and real solutions will only come when residents and business, agriculture, community and environmental groups, and local and state political leaders reach beyond their individual agendas to embrace part of someone else's agenda. Solutions must combine housing **and** open space – both in adequate amounts to meet projected growth. Solutions must combine fiscal **and** regulatory reform **and** accountability.

California's economy has been through wrenching changes so far in the 1990s. Industries have had to develop new products and markets in a fast-paced global economy. Workers have had to adjust to new skill requirements and new ways of working. Yet, Californians are adapting to the new economy. Californians will enter the 21st century with a stronger economic base, higher incomes, and more opportunities than were present ten years earlier.

The question today is whether Californians can show the same resilience and energy in meeting the challenges of land use planning as we did in responding to defense downsizing and the global economy.